

OWSLEY COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

| General Fund Type | Special Revenue Fund Type | | |
|---|---------------------------|--|-------------------|
| Local Government Economic Assistance Fund | Forestry Fund | Local Government Economic Development Fund | Ambulance Fund |
| \$ 105,574 | \$ 1,640 | \$ 1,389 | \$ 25,272 |
| \$ 105,574 | \$ 1,640 | \$ 1,389 | \$ 25,272 |
| \$ 46,274 | \$ 1,866 | \$ 1,389 | \$ 15,595 |
| 79,164 | | | 6,495 |
| \$ 125,438 | \$ 1,866 | \$ 1,389 | \$ 22,090 |
| \$ (19,864) | \$ (226) | \$ | \$ 3,182 |
| 50,348 | 474 | | 1,767 |
| \$ 30,484 | \$ 248 | \$ | \$ 4,949 |

The accompanying notes are an integral part of the financial statement.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Owsley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Owsley County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Owsley County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Owsley County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Owsley County Special Revenue Fund Type includes the following county funds: Forestry Fund, Local Government Economic Development Fund, and the Ambulance Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Owsley County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Joint Venture

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility.

The Owsley County Fiscal Court has entered into a joint venture with Wolfe and Lee counties. They have formed the Three Forks Public Properties Corporation, a legally separate organization, in order to sell bonds to build the Three Forks Regional Jail. The Owsley County Fiscal Court does not appoint a voting majority of the 10 board members. Lee County appoints 4 of the 10 members. Wolfe and Owsley counties appoint 3 members each. Each county will be equally liable if the Three Forks Regional Jail doesn't meet the bond payment requirements. Each of the three participants will have joint control and they have an ongoing financial interest and ongoing financial responsibility. Each county has also guaranteed the Three Forks Regional Jail payment for 15 prisoners per county at the rate of \$25 a day even if occupancy is at a lower amount. The Three Forks Public Properties Corporation issued \$6,295,000 of First Mortgage Revenue Bonds for the construction of the regional jail.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Loan Receivable

A. 1997 Ambulance

The Fiscal Court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement states that the Fiscal Court would purchase an ambulance and would finance it on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. The County paid off the obligation on the loan in a previous year and Allen's Ambulance Service reimbursed the remaining amount due the County on January 3, 2002. As of June 30, 2002, both parties had fulfilled their obligations.

B. 2000 Ambulance

On March 2, 2000, the Fiscal Court entered into a second agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the Fiscal Court would finance the ambulance purchase on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. As of June 30, 2002, Allen's Ambulance Service owed the County \$23,815 in unpaid loan principal payments (See Note 5B for payment schedule).

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Leases

A. Voting Machines

On March 2, 2000, Owsley County entered into a lease agreement with Kentucky Area Development Districts Financing Trust for voting machines. The principal amount of the lease was \$48,195. The agreement requires semi-annual interest payments in May and November and annual principal payments in May to be paid in full May 20, 2005. The principal balance of the agreement was \$31,185 as of June 30, 2002. Lease payments for the remaining years are:

| Fiscal Year Ended | | |
|-------------------|-----------------|------------------|
| June 30 | Interest | Principal |
| 2003 | \$ 2,077 | \$ 8,505 |
| 2004 | 1,588 | 11,340 |
| 2005 | 936 | 11,340 |
| Totals | <u>\$ 4,601</u> | <u>\$ 31,185</u> |

B. 2000 Ambulance

On March 2, 2000, the Fiscal Court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement states that the Fiscal Court will finance the ambulance purchase on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. As of June 30, 2002, the remaining principal balance was \$23,815, all of which is a receivable due the County from Allen's Ambulance Service (See Note 4B above). Lease payments for the remaining years are:

| Fiscal Year Ended | | |
|-------------------|-----------------|------------------|
| June 30 | Interest | Principal |
| 2003 | \$ 1,586 | \$ 6,495 |
| 2004 | 1,212 | 8,660 |
| 2005 | 714 | 8,660 |
| Totals | <u>\$ 3,512</u> | <u>\$ 23,815</u> |

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Contingent Liability

On November 4, 1998, the County entered into an agreement with Fifth Third Bank Corporate Trust to purchase an ambulance that is used by Allen's Ambulance Service. Allen's Ambulance Service is making all payments for the ambulance directly to Fifth Third Bank. In the event that Allen's Ambulance Service would fail to make the scheduled payment, the County would be responsible for the liability. As of June 30, 2002, Allen's Ambulance Service is in compliance with all scheduled payments to Fifth Third Bank. As of June 30, 2002, the outstanding principal balance is \$25,100. Lease payments for the remaining years are:

| Fiscal Year Ended | | |
|-------------------|-----------------|------------------|
| June 30 | Interest | Principal |
| 2003 | \$ 1,201 | \$ 6,300 |
| 2004 | 875 | 6,700 |
| 2005 | 528 | 7,100 |
| 2006 | 128 | 5,000 |
| | | |
| Totals | <u>\$ 2,732</u> | <u>\$ 25,100</u> |

Note 7. Insurance

For the fiscal year ended June 30, 2002, Owsley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

OWSLEY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

| Expenditure Categories | GENERAL FUND TYPE | | |
|--|---------------------|--------------------------|---------------------------|
| | Final Budget | Budgeted Expenditures | Under (Over) Budget |
| General Government | \$ 370,201 | \$ 344,658 | \$ 25,543 |
| Protection to Persons and Property | 189,011 | 177,447 | 11,564 |
| General Health and Sanitation | 22,231 | 22,051 | 180 |
| Social Services | 3,000 | | 3,000 |
| Roads | 415,673 | 369,366 | 46,307 |
| Transportation Facilities and Services | 1,500 | | 1,500 |
| Debt Service | 2,565 | 2,566 | (1) |
| Capital Projects | 99,821 | 60,652 | 39,169 |
| Administration | 299,190 | 208,944 | 90,246 |
| Total Operating Budget - All General Fund Types | \$ 1,403,192 | \$ 1,185,684 | \$ 217,508 |
| Other Financing Uses: | | | |
| Capital Lease Agreement- Principal on Lease | 8,506 | 8,505 | 1 |
| TOTAL BUDGET - ALL GENERAL FUND TYPES | <u>\$ 1,411,698</u> | <u>\$ 1,194,189</u> | <u>\$ 217,509</u> |

OWSLEY COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

| Expenditure Categories | SPECIAL REVENUE FUND TYPE | | |
|--|---------------------------|--------------------------|---------------------------|
| | Final Budget | Budgeted Expenditures | Under (Over) Budget |
| General Government | \$ 517,000 | \$ 1,389 | \$ 515,611 |
| Protection to Persons and Property | 53,586 | 15,502 | 38,084 |
| Debt Service | 1,959 | 1,959 | |
| Total Operating Budget - All Special Revenue Fund Types | \$ 572,545 | \$ 18,850 | \$ 553,695 |
| Other Financing Uses: | | | |
| Capital Lease Agreement- | | | |
| Principal on Lease | 6,495 | 6,495 | |
| TOTAL BUDGET - SPECIAL REVENUE FUND TYPE | <u>\$ 579,040</u> | <u>\$ 25,345</u> | <u>\$ 553,695</u> |

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmie Herald, Former Owsley County Judge/Executive
Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Owsley County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated May 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Owsley County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Should Earn Interest On Applicable Checking Accounts
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Adopt a Written Investment Policy
- The County Treasurer Should Present The County Settlement To The Fiscal Court Within Thirty Days As Required By KRS 68.020



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Owsley County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The County Should Maintain Adequate Inventory Records
- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions referred to above to be material weaknesses.

This report is intended solely for the information and use of management is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 21, 2003

